

**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WOLFE COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Wolfe County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Wolfe County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$2,638,731 as of June 30, 2004. The fiscal court had unrestricted net assets of \$629,946 in its governmental funds as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$128,200 with \$104,200 due within the next year.

Report Comment:

- Lacks Adequate Segregation of Duties

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Raymond Hurst, Wolfe County Judge/Executive
Members of the Wolfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wolfe County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Wolfe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Wolfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wolfe County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wolfe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2005, on our consideration of Wolfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 23, 2005

WOLFE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Raymond Hurst	County Judge/Executive
C. B. Gilbert	Magistrate
Marvin Carson	Magistrate
Garrett Denniston	Magistrate

Other Elected Officials:

Stephen Johnson	County Attorney
Dennis Brooks	Jailer
Kenneth Lindon	County Clerk
Susan Neff	Circuit Court Clerk
Henry "Rocky" Dunn	Sheriff
Joseph Dunn	Property Valuation Administrator
James Porter	Coroner

Appointed Personnel:

Reva Terrill	County Treasurer
Barbara Phillips	Occupational Tax Collector
Barbara Phillips	Finance Officer

WOLFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

WOLFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,648,464
Total Current Assets	<u>1,648,464</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	39,351
Buildings	475,946
Other Equipment	23,239
Vehicles and Equipment	464,437
Infrastructure Assets - Net of Depreciation	<u>115,494</u>
Total Noncurrent Assets	<u>1,118,467</u>
Total Assets	<u>2,766,931</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	<u>104,200</u>
Total Current Liabilities	<u>104,200</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>24,000</u>
Total Noncurrent Liabilities	<u>24,000</u>
Total Liabilities	<u>128,200</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	990,267
Restricted For:	
Capital Projects	1,018,518
Unrestricted	<u>629,946</u>
Total Net Assets	<u><u>\$ 2,638,731</u></u>

The accompanying notes are an integral part of the financial statements.

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WOLFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

WOLFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Governmental Activities:				
General Government	\$ 756,811	\$ 22,131	\$ 44,559	\$ 105,000
Protection to Persons and Property	288,427	3,576	60,005	
General Health and Sanitation	45,225			
Social Services	9,311		17,103	
Recreation and Culture	7,631			
Roads	456,528		990,920	113,605
Interest on Long Term Debt	1,582			
Capital Projects	374,230			
Total Governmental Activities	<u>\$ 1,939,745</u>	<u>\$ 25,707</u>	<u>\$ 1,112,587</u>	<u>\$ 218,605</u>

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WOLFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

**Net (Expenses) Revenues
and Changes in Net Assets**

**Governmental
Activities**

\$	(585,121)
	(224,846)
	(45,225)
	7,792
	(7,631)
	647,997
	(1,582)
	(374,230)
<hr/>	
\$	(582,846)

	67,610
	6,207
	23,358
	401,480
	2,405
	15,691
	10,448
<hr/>	
	527,199
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	(55,647)
<hr/>	
	2,694,378
<hr/>	
\$	2,638,731

The accompanying notes are an integral part of the financial statements.

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WOLFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

WOLFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Special Projects Fund
ASSETS					
Cash and Cash Equivalents	\$ 145,490	\$ 381,570	\$ 1,046	\$ 49,722	\$ 1,018,518
Total Assets	<u>145,490</u>	<u>381,570</u>	<u>1,046</u>	<u>49,722</u>	<u>1,018,518</u>
FUND BALANCES					
Reserved for:					
Encumbrances	168	9,600	300		
Unreserved:					
General Fund	145,322				
Special Revenue Fund		371,970	746	49,722	
Capital Projects Fund					1,018,518
Total Fund Balances	<u>\$ 145,490</u>	<u>\$ 381,570</u>	<u>\$ 1,046</u>	<u>\$ 49,722</u>	<u>\$ 1,018,518</u>

The accompanying notes are an integral part of the financial statements.

WOLFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Local Government Economic Development Fund	Non- Major Governmental Funds	Total Governmental Funds
\$ 34,500	\$ 17,618	\$ 1,648,464
<u>34,500</u>	<u>17,618</u>	<u>1,648,464</u>
		10,068
		145,322
34,500	17,618	474,556
		<u>1,018,518</u>
<u>\$ 34,500</u>	<u>\$ 17,618</u>	<u>\$ 1,648,464</u>

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 1,648,464
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	1,688,311
Depreciation	(569,844)
Financing Obligations Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations Payable	<u>(128,200)</u>
Net Assets of Governmental Activities	<u>\$ 2,638,731</u>

The accompanying notes are an integral part of the financial statements.

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WOLFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

WOLFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 472,610	\$	\$	\$
In Lieu Tax Payments	22,724			
Excess Fees	2,405			
Licenses and Permits	1,478	927,460		
Intergovernmental	71,516	3,320	60,117	134,333
Charges for Services	29			
Miscellaneous	38,913			1,500
Interest	860	3,138	21	234
Total Revenues	<u>610,535</u>	<u>933,918</u>	<u>60,138</u>	<u>136,067</u>
EXPENDITURES				
General Government	434,819			11,200
Protection to Persons and Property	39,942		212,774	9,820
General Health and Sanitation	36,200			8,896
Social Services				7,960
Recreation and Culture				5,642
Roads		618,066		50,163
Debt Service	58,100	675		5,107
Capital Projects		153,796		
Administration	125,612	61,650	9,033	7,196
Total Expenditures	<u>694,673</u>	<u>834,187</u>	<u>221,807</u>	<u>105,984</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(84,138)</u>	<u>99,731</u>	<u>(161,669)</u>	<u>30,083</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	48,000	90,000		
Transfers From Other Funds	130,415		162,000	
Transfers To Other Funds	(162,000)	(130,415)		
Total Other Financing Sources (Uses)	<u>16,415</u>	<u>(40,415)</u>	<u>162,000</u>	
Net Change in Fund Balances	(67,723)	59,316	331	30,083
Fund Balances - Beginning (Restated)	213,213	322,254	715	19,639
Fund Balances - Ending	<u>\$ 145,490</u>	<u>\$ 381,570</u>	<u>\$ 1,046</u>	<u>\$ 49,722</u>

The accompanying notes are an integral part of the financial statements.

WOLFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Special Projects Fund	Local Government Economic Development Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 2,472	\$ 475,082
			22,724
			2,405
			928,938
	105,000	22,552	396,838
			29
		7,220	47,633
6,124		71	10,448
6,124	105,000	32,315	1,884,097
50,675		2,094	498,788
			262,536
			45,096
			7,960
			5,642
			668,229
			63,882
	220,434		374,230
9,878		31,465	244,834
60,553	220,434	33,559	2,171,197
(54,429)	(115,434)	(1,244)	(287,100)
			138,000
			292,415
			(292,415)
			138,000
(54,429)	(115,434)	(1,244)	(149,100)
1,072,947	149,934	18,862	1,797,564
\$ 1,018,518	\$ 34,500	\$ 17,618	\$ 1,648,464

The accompanying notes are an integral part of the financial statements.

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**WOLFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

WOLFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(149,100)
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Amounts Reported for Governmental Activities in the Statement of Activities

Are Different Because Governmental Funds Report Capital Outlays as Expenditures.

However, in the Statement of Activities the Cost of Those Assets is Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		279,592
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Depreciation Expense		(110,440)
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The Issuance of Long-term Debt (Financing Obligations) Provides Current

Financial Resources to Governmental Funds, While the Repayment of Principal on long-term debt consumes the current financial resources of governmental

Funds. These Transactions, However, Have No Effect on Net Assets.

Financing Obligation Proceeds		(138,000)
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Financing Obligations Principal Payment		62,300
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Change in Net Assets of Governmental Activities	\$	(55,648)
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TO THE FINANCIAL STATEMENTS**

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WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Wolfe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Wolfe County Fiscal Court does not have any component units, blended or discretely presented.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Wolfe County Elected Officials Not Part Of Wolfe County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Wolfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Wolfe County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The county reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for road, protection of persons and property, social services and general health and sanitation expenditures.

Special Projects Fund - The purpose of this fund is to account for economic development revenues for Wolfe County Fiscal Court. The primary source of the money for the county is reimbursements from a company for a Community Development Block Grant received. The funds may be used for economic development.

Local Government Economic Development Fund - The purpose of this fund is to account for local government economic development fund moneys from the state government. The funds may be used for road equipment.

The county also has the following non-major funds: Area Development Fund, Fire Protection Fund, and the Cemetery Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Area Development Fund, Fire Protection Fund, and Cemetery Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Special Projects Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is only reporting infrastructure put in place after July 1, 2003.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Wolfe County Fiscal Court:

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1st, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

It is anticipated under the management agreement that the three participating counties will share equally in the operational costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments to the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operational costs.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture (Continued)

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County jailer is a required member of the board.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 39,351	\$	\$	\$ 39,351
Total Capital Assets Not Being Depreciated	39,351			39,351
Capital Assets, Being Depreciated:				
Buildings	762,402			762,402
Other Equipment	46,897			46,897
Vehicles and Equipment	560,069	153,599		713,668
Infrastructure		125,993		125,993
Total Capital Assets Being Depreciated	1,369,368	279,592		1,648,960
Less Accumulated Depreciation For:				
Buildings	(273,815)	(12,641)		(286,456)
Other Equipment	(19,320)	(4,338)		(23,658)
Vehicles and Equipment	(166,269)	(82,962)		(249,231)
Infrastructure		(10,499)		(10,499)
Total Accumulated Depreciation	(459,404)	(110,440)		(569,844)
Total Capital Assets, Being Depreciated, Net	909,964	169,152		1,079,116
Governmental Activities Capital Assets, Net	<u>\$ 949,315</u>	<u>\$ 169,152</u>	<u>\$ 0</u>	<u>\$ 1,118,467</u>

Depreciation expense was charged to functions of the county as follows:

<u>Governmental Activities:</u>	
General Government	\$ 13,189
Protection to Persons and Property	36,891
General Health and Sanitation	129
Recreation and Culture	1,989
Social Services	1,351
Roads, Including Depreciation of General Infrastructure Assets	<u>56,891</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 110,440</u>

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Financing Obligations

A. Kentucky Area Development District Leasing Trust – Dump Truck

On February 6, 2004, the fiscal court entered into a financing obligation agreement with Kentucky Area Development District for the purpose of purchasing a new dump truck. The principal of the agreement was \$90,000 with repayment to be made on April 20, 2005. The county will pay interest and fees on October 20, 2004 and April 20, 2005. The principal balance of the agreement was \$90,000 as of June 30, 2004. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 90,000	\$ 1,800
Totals	<u>\$ 90,000</u>	<u>\$ 1,800</u>

B. Kentucky Area Development District Leasing Trust – Sheriff's Cruiser

On October 13, 1999, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing a new sheriff's cruiser. The original principal of the lease was \$22,000 with repayment to be made over a five-year period. The county has paid semiannual installments in May and November in accordance with a schedule to complete the contract. The principal balance of the agreement was \$2,200 as of June 30, 2004. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 2,200	\$ 58
Totals	<u>\$ 2,200</u>	<u>\$ 58</u>

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Financing Obligations (Continued)

C. Kentucky Area Development District Leasing Trust – Senior Citizens Building

On April 9, 1997, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of constructing a Senior Citizens Building. The original principal of the lease was \$97,000 with repayment to be made over a ten-year period. The county has made semiannual installments due in May and November in accordance with a schedule to complete the contract. In November 2003, the county refinanced this lease for a lower interest rate and reduced the payments. The initial interest rate was 6.24% and the refinanced rate is 2.64%. The principal balance of the agreement was \$36,000 as of June 30, 2004. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 12,000	\$ 870
2006	12,000	590
2007	12,000	262
Totals	<u>\$ 36,000</u>	<u>\$ 1,722</u>

D. Changes In Liabilities

Financing Obligation activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 52,500	\$ 138,000	\$ 62,300	\$ 128,200	\$ 104,200
Governmental Activities					
Long-term Liabilities	<u>\$ 52,500</u>	<u>\$ 138,000</u>	<u>\$ 62,300</u>	<u>\$ 128,200</u>	<u>\$ 104,200</u>

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2004, Wolfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$896,814, due to capital assets previously not reported. The fund balance of the General Fund has also been restated by \$102 for prior year voided checks.

Note 8. Subsequent Event

On May 27, 2005, the Auditor of Public Accounts issued an Independent Auditor's Report on the June 30, 2004, financial statements of the Three Forks Regional Jail Authority. This report outlines that the Three Forks Regional Jail (a joint venture of the Wolfe County Fiscal Court) has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. The financial situation of the Three Forks Regional Jail has a severe and direct impact on the Wolfe County Fiscal Court's current and future budgets. Wolfe County's commitment to the Three Forks Regional Jail is outlined in Note 1. A copy of the Three Forks Regional Jail Authority's audit report may be obtained at www.auditor.ky.gov, or by writing to the Auditor of Public Accounts, 105 Sea Hero Road, Suite 2, Frankfort, Kentucky 40601, or by telephone at (502) 573-0050.

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WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 394,900	\$ 432,830	\$ 472,610	\$ 39,780
In Lieu Tax Payments	17,000	17,000	22,724	5,724
Excess Fees		2,309	2,405	96
Licenses and Permits	2,500	2,500	1,478	(1,022)
Intergovernmental Revenue	46,320	55,373	71,516	16,143
Charges for Services	100	100	29	(71)
Miscellaneous	15,100	15,100	38,913	23,813
Interest	2,000	2,000	860	(1,140)
Total Revenues	477,920	527,212	610,535	83,323
EXPENDITURES				
General Government	388,524	416,288	434,819	(18,531)
Protection to Persons and Property	32,883	32,883	39,942	(7,059)
General Health and Sanitation	9,465	9,465	36,200	(26,735)
Debt Service	14,941	14,941	58,100	(43,159)
Administration	130,991	225,830	125,612	100,218
Total Expenditures	576,804	699,407	694,673	4,734
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(98,884)	(172,195)	(84,138)	88,057
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			48,000	48,000
Transfers from Other Funds	130,415	130,415	130,415	
Transfers to Other Funds	(156,531)	(171,331)	(162,000)	9,331
Total Other Financing Sources (Uses)	(26,116)	(40,916)	16,415	57,331
Net Changes in Fund Balance	(125,000)	(213,111)	(67,723)	145,388
Fund Balance - Beginning	125,000	213,111	213,213	102
Fund Balance - Ending	\$ 0	\$ 0	\$ 145,490	\$ 145,490

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 1,346	\$ 1,346	\$ 3,320	\$ 1,974
Intergovernmental Revenue	689,748	689,748	927,460	237,712
Miscellaneous	100	100		(100)
Interest	7,000	7,000	3,138	(3,862)
Total Revenues	<u>698,194</u>	<u>698,194</u>	<u>933,918</u>	<u>235,724</u>
EXPENDITURES				
Roads	675,138	675,138	618,066	57,072
Debt Service			675	(675)
Capital Projects	50,000	50,000	153,796	(103,796)
Administration	72,201	164,895	61,650	103,245
Total Expenditures	<u>797,339</u>	<u>890,033</u>	<u>834,187</u>	<u>55,846</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(99,145)</u>	<u>(191,839)</u>	<u>99,731</u>	<u>291,570</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			90,000	90,000
Transfers to Other Funds	<u>(130,415)</u>	<u>(130,415)</u>	<u>(130,415)</u>	
Total Other Financing Sources (Uses)	<u>(130,415)</u>	<u>(130,415)</u>	<u>(40,415)</u>	<u>90,000</u>
Net Changes in Fund Balance	(229,560)	(322,254)	59,316	381,570
Fund Balance - Beginning	<u>229,560</u>	<u>322,254</u>	<u>322,254</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 381,570</u>	<u>\$ 381,570</u>

**Reconciliation Of the Budgetary Comparison Schedule to the
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds - Modified Cash Basis**

Fund Balance - Budgetary Basis	\$ 381,570
Short-term Debt Financing Not Included in Statement of Revenues, Expenditures and Changes in Fund Balance:	
Proceeds from Short-term Debt Financing	<u>(90,000)</u>
Fund Balance - Modified Cash Basis	<u>\$ 291,570</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 51,044	\$ 51,044	\$ 60,117	\$ 9,073
Interest	100	100	21	(79)
Total Revenues	51,144	51,144	60,138	8,994
EXPENDITURES				
Protection to Persons and Property	198,475	213,275	212,774	501
Administration	9,700	9,700	9,033	667
Total Expenditures	208,175	222,975	221,807	1,168
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(157,031)	(171,831)	(161,669)	10,162
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	156,531	171,331	162,000	(9,331)
Total Other Financing Sources (Uses)	156,531	171,331	162,000	(9,331)
Net Changes in Fund Balance	(500)	(500)	331	831
Fund Balance - Beginning	500	500	715	215
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,046	\$ 1,046

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 128,288	\$ 128,288	\$ 134,333	\$ 6,045
Miscellaneous			1,500	\$ 1,500
Interest	500	500	234	(266)
Total Revenues	128,788	128,788	136,067	7,279
EXPENDITURES				
General Government	11,200	11,200	11,200	
Protection to Persons and Property	10,574	10,574	9,820	754
General Health and Sanitation	5,078	11,807	8,896	2,911
Social Services	8,060	8,060	7,960	100
Recreation and Culture	5,136	5,136	5,642	(506)
Roads	90,000	90,000	50,163	39,837
Road Facilities	5,108	5,108	5,107	1
Administration	6,542	6,542	7,196	(654)
Total Expenditures	\$ 141,698	\$ 148,427	\$ 105,984	\$ 42,443
Excess (Deficiency) of Revenues Over Expenditures	(12,910)	(19,639)	30,083	49,722
Net Changes in Fund Balances	(12,910)	(19,639)	30,083	49,722
Fund Balances - Beginning	12,910	19,639	19,639	
Fund Balances - Ending	\$ 0	\$ 0	\$ 49,722	\$ 49,722

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

SPECIAL PROJECTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
			Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$	\$	\$ 6,124
Total Revenues			6,124
EXPENDITURES			
Capital Projects	989,756	989,756	50,675
Administration	10,244	10,244	9,878
Total Expenditures	1,000,000	1,000,000	60,553
Excess (Deficiency) of Revenues Over Expenditures	(1,000,000)	(1,000,000)	(54,429)
Net Changes in Fund Balances	(1,000,000)	(1,000,000)	(54,429)
Fund Balances - Beginning	1,000,000	1,000,000	1,072,947
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,018,518

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 165,000	\$ 165,000	\$ 105,000	\$ (60,000)
Total Revenues	165,000	165,000	105,000	(60,000)
EXPENDITURES				
Capital Projects	314,934	314,934	220,434	94,500
Total Expenditures	314,934	314,934	220,434	94,500
Excess (Deficiency) of Revenues Expenditures	(149,934)	(149,934)	(115,434)	34,500
Net Changes in Fund Balances	(149,934)	(149,934)	(115,434)	34,500
Fund Balances - Beginning	149,934	149,934	149,934	
Fund Balances - Ending	\$ 0	\$ 0	\$ 34,500	\$ 34,500

WOLFE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**WOLFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

WOLFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Area Development Fund	Fire Protection Fund	Cemetery Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,835	\$ 7,563	\$ 7,220	\$ 17,618
Total Assets	<u>2,835</u>	<u>7,563</u>	<u>7,220</u>	<u>17,618</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>2,835</u>	<u>7,563</u>	<u>7,220</u>	<u>17,618</u>
Total Fund Balances	<u>\$ 2,835</u>	<u>\$ 7,563</u>	<u>\$ 7,220</u>	<u>\$ 17,618</u>

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WOLFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

WOLFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Area Development Fund	Fire Protection Fund	Cemetery Fund	Total Non-Major Governmental Funds
REVENUES				
Licenses and Permits	\$	\$ 2,472	\$	\$ 2,472
Intergovernmental	22,552			22,552
Miscellaneous			7,220	7,220
Interest	71			71
Total Revenues	<u>22,623</u>	<u>2,472</u>	<u>7,220</u>	<u>32,315</u>
EXPENDITURES				
Protection to Persons and Property		2,094		2,094
Capital Projects	31,465			31,465
Total Expenditures	<u>31,465</u>	<u>2,094</u>		<u>33,559</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,842)</u>	<u>378</u>	<u>7,220</u>	<u>(1,244)</u>
Net Change in Fund Balances	(8,842)	378	7,220	(1,244)
Fund Balances - Beginning	11,677	7,185		18,862
Fund Balances - Ending	<u>\$ 2,835</u>	<u>\$ 7,563</u>	<u>\$ 7,220</u>	<u>\$ 17,618</u>

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**WOLFE COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2004

**WOLFE COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2004

REPORTABLE CONDITION

Lacks Adequate Segregation of Duties

The County has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.

County Judge/Executive Raymond Hurst's Response:

We will implement these procedures as budget allows.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
Members of the Wolfe County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wolfe County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 23, 2005. Wolfe County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wolfe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Wolfe County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error and fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Wolfe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Wolfe County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 23, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**


WOLFE COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
WOLFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Wolfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Raymond Hurst
County Judge/Executive


Reva Terrill
County Treasurer